



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
MICHAEL L. HANISKO, CPA  
DAVID D. QUIMBY, CPA  
KATHLYN M. ENGELHARDT, CPA  
RENAEM. CLEVINGER, CPA  
AMY L. RODRIGUEZ, CPA  
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

CITY OF EVART –  
LOCAL DEVELOPMENT FINANCE AUTHORITY  
EVART, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2005

1600 CENTER AVENUE  
POST OFFICE BOX 775  
BAY CITY, MI 48707-0775  
989-893-5577  
800-624-2400  
FAX 989-895-5842  
[www.wf-cpas.com](http://www.wf-cpas.com)  
[wf@wf-cpas.com](mailto:wf@wf-cpas.com)

OFFICES: BAY CITY, CLARE  
GLADWIN AND WEST BRANCH

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DEC 29 2005

Michigan Department of Treasury  
498 (2-04)**Auditing Procedures Report**

LOCAL AUDIT &amp; FINANCE DIV.

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>CITY OF EVART - LOCAL DEV. FIN. AUTH.</b>	County <b>OSCEOLA</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>12/7/05</b>	Date Accountant Report Submitted to State: <b>December 28, 2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>WEINLANDER FITZHUGH</b>			
Street Address <b>601 BEECH STREET</b>	City <b>CLARE</b>	State <b>MI</b>	ZIP <b>48617</b>
Accountant Signature <i>Shannon A. McElroy CPA</i>		Date <i>12-22-05</i>	

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## INDEPENDENT AUDITORS' REPORT

December 7, 2005

Development Board  
City of Evart - Local Development Finance Authority  
Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority, Evart, Michigan, a component unit of the City of Evart, Michigan as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Evart - Local Development Finance Authority as of June 30, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

1600 CENTER AVENUE  
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# WEINLANDER FITZHUGH

Development Board  
City of Evert - Local Development Finance Authority  
December 7, 2005  
Page 2

## **Required Supplemental Information**

The management's discussion and analysis and budgetary comparison listed in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

## **Other Supplemental Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Evert - Local Development Finance Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

Our discussion and analysis of the City of Evart - Local Development Finance Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005.

**Financial Highlights**

The Authority's net assets increased by \$30,528 or 3%. Program revenues were \$87,487 or 25% of total revenues, and general revenues were \$257,600 or 75%.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Evart - Local Development Finance Authority financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Authority, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For Governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Authority's operations in more detail than the Government-wide financial statements by providing information about the Authority's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. Individual fund information for non-major funds is found in statements in a later section of this report. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Other Supplemental Information

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

**Reporting the Authority as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the Authority's finances is, "Is the Authority better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Authority as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the Authority's net assets as a way to measure the Authority's financial position. The change in net assets provides the reader a tool to assist in determining whether the Authority's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of Authority.

**Reporting the Authority's Most Significant Funds**

*Fund Financial Statements*

The Authority's fund financial statements provide detail information about the most significant funds – not the Authority as a whole. Some funds are required to be established by State law. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue.

*Governmental Funds*

All of the Authority's activities are reported in Governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detail short-term view of the Authority's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Authority's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2005**

**Government-wide Financial Analysis**

The statement of net assets provides the perspective of the Authority as a whole. Exhibit A provides a summary of the Authority's net assets as of June 30, 2005 and 2004:

<b>Exhibit A</b>	<b>Governmental Activities</b>	
	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
Current and other assets	\$ 430,984	\$ 524,988
Capital assets - net of accumulated depreciation	<u>805,886</u>	<u>820,873</u>
Total assets	<u>1,236,870</u>	<u>1,345,861</u>
<b>Liabilities</b>		
Current liabilities	53,369	114,100
Long-term liabilities	<u>0</u>	<u>78,788</u>
Total liabilities	<u>53,369</u>	<u>192,888</u>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	805,886	742,085
Restricted	9	35,392
Unrestricted	<u>377,606</u>	<u>375,496</u>
Total net assets	<u><u>\$ 1,183,501</u></u>	<u><u>\$ 1,152,973</u></u>

This analysis focuses on net assets. The Authority's net assets were \$1,183,501 at June 30, 2005. Capital assets totaling \$805,886 compares the original costs, less depreciation of the Authority's capital assets to long-term debt to finance the acquisition of those assets. The debt will be repaid from general revenue. Restricted net assets are reported separately to show legal constraints from debt requirements and legislation that limit the Authority's ability to use those net assets for day-to-day operations.



# CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY

## Management's Discussion and Analysis

For the Year Ended June 30, 2005

The \$377,606 in unrestricted net assets of governmental type activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Authority as a whole are reported in the statement of activities, summarized in Exhibit B below, which shows the change in net assets for the years ended June 30, 2005 and 2004.

	Governmental Activities	
	2005	2004
<b>Revenue</b>		
Program revenue:		
Grants and contributions	\$ 87,487	\$ 288,400
General revenue:		
Taxes	228,525	355,110
Rent	24,000	24,000
Interest	4,987	2,701
Other	88	200
Total revenue	<u>345,087</u>	<u>670,411</u>
<b>Function/Program Expenses</b>		
General government	221,959	248,430
Community promotion	9,882	11,808
Community improvements	78,403	308,655
Interest on long-term debt	4,315	15,098
Total expenses	<u>314,559</u>	<u>583,991</u>
<b>Increase in Net Assets</b>	<u>\$ 30,528</u>	<u>\$ 86,420</u>

As reported in the statement of activities, the cost of all of our *Governmental type* activities this year was \$314,559. Certain activities were partially funded from organizations that subsidized certain programs with grants and contributions. We paid for the remaining "public benefit" portion of our governmental activities with \$228,525 in taxes, \$24,000 from incubator building rent, \$4,987 in interest and \$88 in miscellaneous revenues.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

The Authority experienced an increase in net assets of \$30,528. Key reasons for the change in net assets were a decrease in the general government and community improvements expenses. The major general government expenses that decreased during the year were the tax tribunal rebates and legal expenses. These decreases in expenses were offset by increases in payroll expenses. Community improvements expense experienced a decrease due to the River Park expansion project being completed. The increase will be used for future operations of the Authority. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

**The Authority's Funds**

The Authority uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Authority is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Authority's overall financial health.

The Authority's governmental funds reported a combined fund balance of \$377,615, which is below last year's total of \$410,888. The schedule below indicates the fund balance and the total change in fund balances as of June 30, 2005 and 2004.

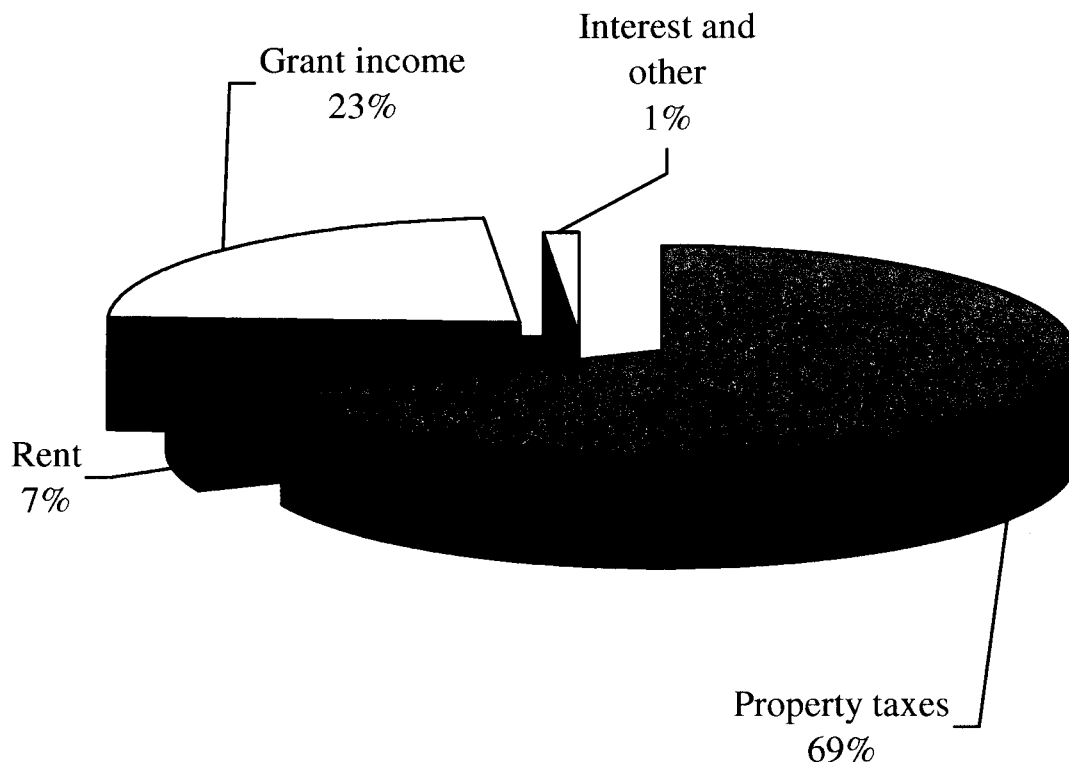
	<u>Fund Balance</u> <u>June 30, 2005</u>	<u>Fund Balance</u> <u>June 30, 2004</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 377,606	\$ 375,496	\$ 2,110
Debt service	9	9	0
Capital project	<u>0</u>	<u>35,383</u>	<u>(35,383)</u>
Total	<u>\$ 377,615</u>	<u>\$ 410,888</u>	<u>\$ (33,273)</u>

- Our General Fund increased \$2,110. The increase is mainly due to a decrease in tax tribunal rebates, legal expenses and community improvement expenses. These changes were off set by increases in payroll expenses and paying off the incubator building loan.
- Our Debt Service Funds had no change this year.
- Our Capital Project Fund was closed during this fiscal year.

**CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

As the graph below illustrates, the largest portion of the Authority's revenue came from the property taxes.

**Sources of Revenues**



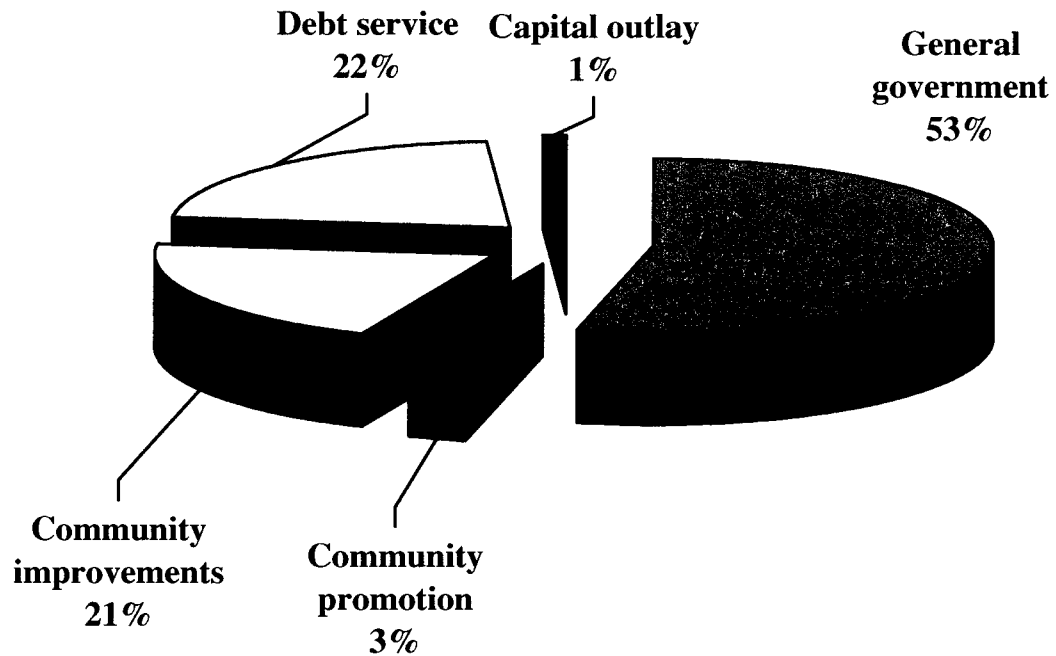
## CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY

### Management's Discussion and Analysis

For the Year Ended June 30, 2005

The graph below illustrates, 21% of the Authority's resources are spent on community improvements. Another 22% is spent on the payment of debt, while 53% is spent for general government and community promotion expenses such as administrative costs, including occupancy costs, and promoting community events.

### Expenditures



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

The chart below compares current year expenditures with prior year.

	<u>2005</u>	<u>2004</u>
<i>Expenditures by Function</i>		
General government	\$203,243	\$ 230,701
Community promotion	9,882	11,808
Community improvements	78,403	308,655
Debt service	83,103	175,327
Capital outlay	<u>3,729</u>	<u>0</u>
Total	<u>\$ 378,360</u>	<u>\$ 726,491</u>

Expenditures are down by \$348,131 or 48% less than the prior year mostly due to decreased spending on community improvements for the Riverside Park expansion project.

**General Fund Budgetary Highlights**

Over the course of the year, the Authority revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Authority's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. There were no changes to the General Fund original budget.

The differences between the budget and the final actual amounts are as follows:

- Actual revenues were over budgeted revenue by \$72,103. The difference is due to additional grant income received.
- Actual expenditures were under the budgeted expenditures by \$211,739. The difference is due to proposed capital projects not being fulfilled due to funding shortfalls and less administration costs and community improvement project costs than budgeted. These differences were offset by the payoff of the incubator building.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

**Capital Assets**

At June 30, 2005, the Authority had \$805,886 invested in a broad range of capital assets, including land, buildings, furniture, and equipment. The addition to the capital assets was for computer equipment.

	<u>2005</u>	<u>2004</u>
Land	\$ 338,300	\$ 338,300
Buildings and improvements	566,145	566,145
Equipment	3,225	0
Furniture and fixtures	<u>9,000</u>	<u>9,000</u>
Total capital assets	916,670	913,445
Less accumulated depreciation	<u>110,784</u>	<u>92,572</u>
Net capital assets	<u><u>\$ 805,886</u></u>	<u><u>\$ 820,873</u></u>

We do not anticipate any significant capital additions in the upcoming fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

**Debt**

At the end of this year, the Authority had \$0 in long-term debt outstanding versus \$78,788 in the previous year. This long-term debt consisted of the following:

	<u>2005</u>	<u>2004</u>
Capital lease	<u><u>\$ 0</u></u>	<u><u>\$ 78,788</u></u>

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Management's Discussion and Analysis  
For the Year Ended June 30, 2005

**Factors Expected to Have an Effect on Future Operations**

We expect to see a decline in property tax revenue next year as the tax base continues to be adjusted downward. We will need to adjust Authority expenditures in response to any revenue shortfall.

**Requests For Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the City of Evart - Local Development Finance Authority. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

City of Evart - Local Development Finance Authority  
127 N. River Street  
Evart, MI 49631

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Statement of Net Assets  
June 30, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 285,704
Receivables:	
Accounts receivable	33,593
Due from other governmental units	111,687
Capital assets less accumulated depreciation of \$110,784	<u>805,886</u>
Total assets	<u>1,236,870</u>
<u>Liabilities</u>	
Accounts payable	45,711
Accrued payroll and other liabilities	<u>7,658</u>
Total liabilities	<u>53,369</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	805,886
Restricted for debt service	9
Unrestricted	<u>377,606</u>
Total net assets	<u>\$ 1,183,501</u>

See accompanying notes to financial statements



CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Statement of Activities  
For the Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Governmental Activities</u>
		<u>Operating Grants/Contributions</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
Governmental activities			
General government	\$ 221,959	\$ 11,840	\$ (210,119)
Community promotion	9,882	0	(9,882)
Community improvements	78,403	75,647	(2,756)
Interest on long-term debt	<u>4,315</u>	<u>0</u>	<u>(4,315)</u>
Total governmental activities	<u>\$ 314,559</u>	<u>\$ 87,487</u>	<u>(227,072)</u>
General revenues:			
Property taxes, levied for general purposes			228,525
Rent			24,000
Interest			4,987
Miscellaneous			<u>88</u>
			<u>257,600</u>
Change in net assets			30,528
Net assets - beginning of year			<u>1,152,973</u>
Net assets - end of year			<u>\$ 1,183,501</u>

See accompanying notes to financial statements

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Governmental Funds

### Balance Sheet

June 30, 2005

	<u>General</u>	<u>Other Nonmajor Governmental Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 285,697	\$ 7	\$ 285,704
Receivables:			
Accounts receivable	33,591	0	33,591
Interest receivable	0	2	2
Due from other governmental units	111,687	0	111,687
Total Assets	<u>\$ 430,975</u>	<u>\$ 9</u>	<u>\$ 430,984</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>Liabilities</u>			
Accounts payable	\$ 45,711	\$ 0	\$ 45,711
Accrued payroll and other liabilities	7,658	0	7,658
Total liabilities	<u>53,369</u>	<u>0</u>	<u>53,369</u>
<u>Fund Balance</u>			
Reserved for debt service	0	9	9
Unreserved:			
Undesignated	377,606	0	377,606
Total fund balance	<u>377,606</u>	<u>9</u>	<u>377,615</u>
Total Liabilities and Fund Balance	<u>\$ 430,975</u>	<u>\$ 9</u>	<u>\$ 430,984</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2005

Total fund balances - governmental funds	\$377,615
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	916,670
Accumulated depreciation	<u>(110,784)</u>
 Total net assets - governmental activities	 <u><u>\$1,183,501</u></u>

See accompanying notes to financial statements

# CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

## Governmental Funds

### Statement of Revenues, Expenditures, and Change in Fund Balance

For the Year Ended June 30, 2005

	General	Other Nonmajor Governmental Fund	Totals
<u>Revenues</u>			
Property taxes	\$ 228,525	\$ 0	\$ 228,525
Rent	24,000	0	24,000
Interest	4,843	144	4,987
Grant income	75,647	0	75,647
Miscellaneous	88	0	88
	<u>333,103</u>	<u>144</u>	<u>333,247</u>
Total revenues			
<u>Expenditures</u>			
Operating:			
General government	203,243	0	203,243
Community promotion	9,882	0	9,882
Community improvements	78,403	0	78,403
Debt service:			
Principal	78,788	0	78,788
Interest and fees	4,315	0	4,315
Capital Outlay	3,729	0	3,729
	<u>378,360</u>	<u>0</u>	<u>378,360</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(45,257)</u>	<u>144</u>	<u>(45,113)</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers from other governmental units	11,840	0	11,840
Operating transfers from other funds	35,527	0	35,527
Operating transfers out to other funds	0	(35,527)	(35,527)
	<u>47,367</u>	<u>(35,527)</u>	<u>11,840</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	2,110	(35,383)	(33,273)
Fund balance - beginning of year	<u>375,496</u>	<u>35,392</u>	<u>410,888</u>
Fund balance - end of year	<u>\$ 377,606</u>	<u>\$ 9</u>	<u>\$ 377,615</u>

See accompanying notes to financial statements

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
Reconciliation of the Statement of Revenues, Expenditures, and  
Change in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2005

Net change in fund balance - total governmental funds		\$	(33,273)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation			
Depreciation expense	\$	(18,212)	
Capital Outlay		<u>3,225</u>	(14,987)
Repayment of loans are an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)			<u>78,788</u>
Change in net assets of governmental activities		\$	<u><u>30,528</u></u>

See accompanying notes to financial statements

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Evert - Local Development Finance Authority conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Evert - Local Development Finance Authority:

**Reporting Entity**

On December 17, 1990, the City Council of the City of Evert, Osceola County, Michigan, established a Local Development Finance Authority (Authority) to provide necessary infrastructure services to the companies within the industrial park and to create a positive surrounding, and to promote and attract additional business growth within the Local Development Finance Authority boundaries. The life of the Authority is fifteen years, after which time all assets acquired revert back to the City of Evert. The agreement was amended June 10, 1993, to extend the life of the Authority to the year 2023. The Authority is a component unit of the City of Evert.

The Authority is governed by a ten-member appointed board.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

**General Fund** – This fund is the general operating fund of Authority. It is used to account for all financial transactions except those required to be accounted for in another fund.

Additionally, the Authority reports the following nonmajor governmental funds:

**Debt Service Fund** – This fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest and related costs.

**Capital Project Fund** – The Capital Project Fund is used to record cost of major construction projects of the Authority. Included are transactions related to the additions and improvements of EDA industrial park.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Net Assets or Equity**

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Capital Assets – Capital assets, which include land, buildings, furniture and fixtures are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, furniture and fixtures are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
Building improvements	20 Years
Equipment	5 Years
Furniture and fixtures	20 Years

Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.



CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for the General Fund prior to the expenditure of monies in a fiscal year.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Authority's Project Consultant submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. Budgeted amounts are as originally adopted, or as amended, by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
3. Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund is presented as Required Supplemental Information

P.A. 621 of 1978, Section 18(1), as amended, provides that local units shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the Authority incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Debt service	\$ 10,000	\$ 83,103	\$ (73,103)

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

At year-end, the Government's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Deposits	<u>\$ 285,704</u>

Custodial Credit Risk- Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2005, \$188,865 of the Authority's bank balance of \$288,865 was exposed to custodial credit risk.

The Authority's investment policy does not identify interest rate risk, foreign currency risk or concentration credit risk.

The Authority has no investments as of June 30, 2005.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity of the Authority for the current year was as follows:

	Balance July 1, 2004	Additions	Disposals and Adjustments	Balance June 30, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 338,300	\$ 0	\$ 0	\$ 338,300
Capital assets being depreciated:				
Buildings	441,145	0	0	441,145
Building improvements	125,000	0	0	125,000
Equipment	0	3,225	0	3,225
Furniture and fixtures	9,000	0	0	9,000
Subtotal	575,145	3,225	0	578,370
Less accumulated depreciation for:				
Buildings	66,172	6,250	0	72,422
Building improvements	18,750	11,028	0	29,778
Equipment	0	484	0	434
Furniture and fixtures	7,650	450	0	8,100
Subtotal	92,572	18,212	0	110,734
Net capital assets being depreciated	482,573	(14,987)	0	467,586
<b>Governmental Activities, Total</b>				
Capital Assets - Net of Depreciation	<u>\$ 820,873</u>	<u>\$ (14,987)</u>	<u>\$ 0</u>	<u>\$ 805,886</u>

Depreciation expense was charged to programs of the Authority as follows:

Governmental Activities:

    General government \$ 18,212

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 5 – INTERFUND TRANSFERS**

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 35,527	\$ 0
Capital project	<u>0</u>	<u>35,527</u>
	<u>\$ 35,527</u>	<u>\$ 35,527</u>

Transfer was used to close out construction fund.

**NOTE 6 – LONG-TERM DEBT**

Long-term obligation activity can be summarized as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Balance June 30, 2005</u>
Capital lease	<u>\$ 78,788</u>	<u>\$ 0</u>	<u>\$ 78,788</u>	<u>\$ 0</u>

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

**Plan Description** – The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Authority. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

State of Michigan  
Office of Retirement Services  
P.O. Box 30171  
Lansing, MI 48909-7671

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)**

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution of 11 percent of gross wages.

**Annual Pension Costs** – For year ended June 30, 2005, the Authority's annual pension cost of \$11,971 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) 3 to 4 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 10 years.

Three year trend information as of December 31, 2004 follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 9,589	\$ 9,340	\$ 11,971
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	85,338	104,092	177,173
Actuarial accrued liability	96,296	78,361	212,306
Unfunded (overfunded) AAL	10,958	(25,731)	35,133
Funded ratio	89%	133%	84%
Covered payroll	81,957	81,946	99,101
UAAL as a percentage of covered payroll	13%	(11%)	(12%)

**NOTE 8 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

CITY OF EVART – LOCAL DEVELOPMENT FINANCE AUTHORITY  
Notes to Financial Statements  
For the Year Ended June 30, 2005

**NOTE 9 – OPERATING LEASES**

The Authority leases the incubator building to MacLellan Integrated Services, Inc. under an operating lease.

The lease has expired and continues on a month to month basis. They have agreed to give MacLellan six months notice before ending the arrangement.

June 30, 2006

\$24,000

**NOTE 10 – ECONOMIC DEPENDENCY**

The Authority received approximately 85% of their property tax revenue from one taxpayer. Due to the significance of this revenue source to the Authority, the Authority is considered to be economically dependent.

**REQUIRED SUPPLEMENTAL INFORMATION**



CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

Required Supplemental Information

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2005

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Property taxes	\$ 232,000	\$ 232,000	\$ 228,525
Rent	24,000	24,000	24,000
Interest	5,000	5,000	4,843
Grant income	0	0	75,647
Miscellaneous	0	0	88
Total revenues	261,000	261,000	333,103
<u>Expenditures</u>			
General government	226,000	226,000	203,243
Community promotion	12,000	12,000	9,882
Community improvement	85,000	85,000	78,403
Debt service	10,000	10,000	83,103
Capital outlay	257,099	257,099	3,729
Total expenditures	590,099	590,099	378,360
Excess (deficiency) of revenues over expenditures	(329,099)	(329,099)	(45,257)
<u>Other Financing Sources</u>			
Operating transfers from other funds	0	0	35,527
Operating transfers from other governmental units	10,000	10,000	11,840
	10,000	10,000	47,367
Excess (deficiency) of revenues and other financing sources over expenditures	(319,099)	(319,099)	2,110
Fund balance - beginning of year	375,496	375,496	375,496
Fund balance - end of year	\$ 56,397	\$ 56,397	\$ 377,606

**OTHER SUPPLEMENTAL INFORMATION**

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY

Other Supplemental Information

Combining Balance Sheet

Combining Nonmajor Governmental Funds

June 30, 2005

	Debt Service Fund	Capital Projects Fund	
	92 Local Development Bond Fund	EDA Air Industrial Park Fund	Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 7	\$ 0	\$ 7
Interest receivable	2	0	2
Total assets	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 9</u>
<u>FUND BALANCE</u>			
<u>Fund Balance</u>			
Reserved for debt service	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 9</u>

CITY OF EVART - LOCAL DEVELOPMENT FINANCE AUTHORITY  
 Other Supplemental Information  
 Combining Statement of Revenues, Expenditures,  
 and Change in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2005

	Debt Service Fund 92 Local Development Bond Fund	Capital Project Fund EDA Air Industrial Park Fund	Total
<u>Revenues</u>			
Local sources:			
Interest	\$ 0	\$ 144	\$ 144
<u>Other Financing (Uses)</u>			
Operating transfers to other funds	0	(35,527)	(35,527)
	0	(35,383)	(35,383)
(Deficiency) of revenues over other financing uses			
	9	35,383	\$ 35,392
Fund balance - beginning of year			
	\$ 9	\$ 0	\$ 9
Fund balance - end of year			